



Press Release

Karnataka Power Corporation Limited

June 04, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 200.00 crore
Long Term Rating	ACUITE BBB-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 200.00 crore bank facilities of KARNATAKA POWER CORPORATION LIMITED (KPCL). The outlook is 'Stable'.

Incorporated in 1970, Karnataka Power Corporation Limited (KPCL) is the state-owned power generation company of Karnataka. It is engaged in the power generation via its 3 thermal power plants (5,020 MW), 21 hydel stations (3,680 MW) including 5 mini hydel stations, 6 solar PV plants (33 MW) and 1 wind energy farm (5 MW), with a total installed capacity of 8,738 MW as on 31st March, 2019. KPCL provides power to the five state-owned distribution companies of Karnataka namely, Bangalore Electricity Supply Company Limited (BESCOM), Mangalore Electricity Company Limited (MESCOM), Hubli Electricity Supply Company Limited (HESCOM), Gulbarga Electric Supply Company Limited (GESCOM) and Chamundeshwari Electricity Supply Corporation Limited (CESC).

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of Karnataka Power Corporation Limited (KPCL) and Raichur Power Corporation Limited to arrive at this rating. Acuite has also factored in support from Government of Karnataka owing to 100 per cent ownership of GoK and strategic importance of KPCL in the power sector for the state.

Key Rating Drivers

Strengths

• Strategically important entity to Government of Karnataka

KPCL is strategically important for the power sector infrastructure in the state of Karnataka as it accounts for approximately 45 per cent of the energy demand of the state. It owns 3 thermal power plants, 16 hydel stations, 5 mini hydel stations, 6 solar PV plants and 1 wind energy farm, with a total installed capacity of 8,738 MW as on 31st March, 2019. The status of being government owned entity provides the company adequate financial flexibility to KPCL. KPCL's credit profile is also supported by its access to funds at low cost and its ability to mobilize financial resources from several financial institutions and multilateral development institutions. The rating also factors ongoing support extended by GoK to KPCL. Further, well-established regulatory processes in Karnataka such as presence of multi-year tariff regulations for generation utilities, etc. is benefitting the KPCL's operations.

Acuite believes that KPCL shall continue to benefit from the financial, operational and managerial support received from GoK from time to time.

• Stability of operations through availability of power purchase agreement and Fuel Supply Agreements

KPCL has power purchase agreements (PPAs) with five state-owned distribution companies of Karnataka namely, Bangalore Electricity Supply Company Limited (BESCOM), Mangalore Electricity

Company Limited (MESCOM), Hubli Electricity Supply Company Limited (HESCOM), Gulbarga Electric Supply Company Limited (GESCOM) and Chamundeshwari Electricity Supply Corporation Limited (CESC) based on a two-part tariff structure, which mitigates demand risk. Presence of fuel supply agreement for Raichur Thermal Power Station (RTPS) under long-term linkage with Singareni Coalfields Company Limited (SCCL) and Coal India Limited (CIL) further ensures stability of fuel supply. Further, new units under Bellary Thermal Power Station and Yeramarus Thermal Power Station (YTPS) for allocation of long-term linkage has been suggested by standing linkage committee under Ministry of Coal (MoC).

Weaknesses

- **High receivable position and significant capital expenditure plans resulting in weakening of financial risk profile**

KPCL is witnessing significant counter-party credit risk due to large build-up of receivables from the discoms, with total outstanding dues of Rs. 17,417.31 crore as on 31st March 2019, including interest on delayed payment to the extent of Rs. 5,904.20 crore. Receivables further increased to Rs. 18,948.81 crore as on 31st December, 2019. The high receivables from the Karnataka discoms is because of the delay in the realization of electricity bill payments from Government entities and the delayed receipt of subsidy from the Government of Karnataka (GoK) to discoms, primarily related to free power supply to agriculture consumers. This leads to higher dependence on the short-term borrowings, thereby resulting in deterioration of overall financial risk profile. The debt levels have sequentially increased to Rs. 26,164.37 crore in 9MFY2020 from Rs. 22,859.73 crore as on 31st March 2019.

However, in a recent development, KPCL is expecting realization of receivables from Karnataka Power Transmission Company Limited to the extent of Rs. 300 crore per month and Rs.300.00 crore per month from BESCOM. Also, as per COVID-19 stimulus package announced by the Central Government, power distribution companies will get Rs.90,000 crore liquidity against receivables which will allow discoms to pay dues to the power producers. Acuite believes that further deterioration of receivable position coupled with capacity expansion plans is likely to result in additional reliance on external debt, thereby further impacting the financial risk profile.

- **Support extended to Raichur Power Corporation Limited (RPCL)**

RPCL, a joint venture between KPCL and Bharat Heavy Electricals Limited operating a 1600 MW thermal power plant, is facing issues with respect to pending auxiliary plant works, resulting in under-recovery in fixed charges from the discoms, thereby resulting in deterioration of the financial risk profile and liquidity position of RPCL. The support extended to RPCL to the extent of Rs.2,344.81 in the form of loans and advances, has significantly increased KPCL's dependence on the external borrowings, adversely affecting the financial risk profile of the company. Acuite believes that any further support extended to RPCL will impart a negative implication towards the rating.

- **Growth in the share of renewable energy in the consumption mix of the state**

Demand for thermal power generation declined in Karnataka owing to growth of share of renewable power sources primarily wind and solar that accounts for 49 per cent of the total power generation capacity of the state as on 31st March 2019. This resulted in decline in energy generation from the thermal power plants of KPCL to 12,977.02 MU in FY2019 as against 14,855 MU in FY2018, ultimately impacting the operating efficiency of thermal power plants in terms of under-utilization of sources as evident from the average plant availability of ~77 per cent across all the thermal power stations, while plant load factor stood at ~42 per cent for FY2019. Acuite believes that sequentially declining utilization of thermal power stations reflects structural issues with the cost of generation and in turn the merit order for these station with KPCL.

- **Uncertainty around long term fuels supply**

The coal production is yet to commence from the reallocated coal mines in Maharashtra for the fuel supply of 2 x 500 MW units of Bellary Thermal Power Station (BTPS) owing to issues over selection of mining contractor. The resolution of dispute is crucial to ensure the long-term security of fuel supply.

The cost competitiveness of the recently commissioned capacity of 2300 MW (comprising 700 MW unit-3 of BTPS and 1600 MW under RPCL) is adversely affected by the high capital cost, primarily due to delays in the execution of these projects. However, the cost-plus tariff structure for sale of power to the discoms with availability-linked payment of capacity charges would mitigate these risks to some extent.

Rating Sensitivity

- Reduction in the amount of receivables
- Further support to Raichur Power Corporation Limited.
- Improvement in PLF for thermal power plants.

Material Covenants

None

Liquidity: Adequate

The company has adequate liquidity profile marked by adequate net accruals. Liquidity position also draws comfort from high resource mobilization ability of KPCL. KPCL due to its strategic importance to GoK has been able to access various funding sources in the past to tide over the short term liquidity mismatch. The receivables increased to Rs. 17,417.31 crore as on 31st March 2019 as against Rs.15,574.62 crore, thereby resulting in higher reliance on the short-term borrowings. The current ratio stood at 0.98 times as on 31 March, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term in the absence of any major debt funded capex and simultaneous improvement in the receivables position.

Outlook: Stable

Acuite believes that KPCL will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to support from the GoK. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the company generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	7,819.49	6,840.72
PAT	Rs. Cr.	(582.48)	(763.37)
PAT Margin	(%)	(7.45)	(11.16)
Total Debt/Tangible Net Worth	Times	3.36	2.26
PBDIT/Interest	Times	1.07	0.98

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>

- Consolidation of Companies – <https://www.acuite.in/view-rating-criteria-60.htm>
- State Government Support – <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instruments

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE BBB-/ Stable (Assigned)

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About Acuité Ratings & Research:

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